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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF PACIFICORP DBA)
ROCKY MOUNTAIN POWER'S APPLICATION) **CASE NO. PAC-E-15-12**
TO APPROVE CAPACITY DEFICIENCY FOR)
AVOIDED COST CALCULATIONS.) **COMMENTS OF THE**
) **COMMISSION STAFF**
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COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Daphne Huang, Deputy Attorney General, and in response to the Notice of Application and Notice Modified Procedure issued October 20, 2015, submits the following comments.

BACKGROUND

On October 13, 2015, PacifiCorp dba Rocky Mountain Power filed an Application asking the Commission to approve 2020 as its updated capacity deficiency period for use in its avoided cost calculations under the Public Utility Regulatory Policies Act (PURPA). Under PURPA, electric utilities must purchase electric energy from qualifying facilities (QFs) at rates approved by the applicable state regulatory agency – in Idaho, this Commission. 16 U.S.C. § 824a-3; *Idaho Power Co. v. Idaho PUC*, 155 Idaho 780, 789, 316 P.3d 1278, 1287 (2013). The purchase or

“avoided cost” rate shall not exceed the “‘incremental cost’ to the purchasing utility of power which, but for the purchase of power from the QF, such utility would either generate itself or purchase from another source.” Order No. 32697 at 7, *citing Rosebud Enterprises v. Idaho PUC*, 128 Idaho 624, 917 P.2d 781 (1996); 18 C.F.R. § 292.101(b)(6) (defining “avoided cost”).

The Commission has established two methods of calculating avoided cost, depending on the size of the QF project: (1) the surrogate avoided resource (SAR) methodology, and (2) the Integrated Resource Plan (IRP) methodology. *See* Order No. 32697 at 7-8. At issue in this case is the SAR methodology, which the Commission uses to establish “published” avoided cost rates. *Id.* Published rates are available for wind and solar QFs with a design capacity of up to 100 kilowatts (kW), and for QFs of all other resource types with a design capacity of up to 10 average megawatts (aMW). *Id.*

In calculating avoided cost, the Commission found it “reasonable, appropriate and in the public interest to compensate QFs separately based on a calculation of not only the energy they produce, but the capacity that they can provide to the purchasing utility.” *Id.* at 16. As to the capacity calculation, the Commission found it appropriate “to identify each utility’s capacity deficiency based on load and resource balances found in each utility’s IRP.” *Id.* The Commission elaborated:

In calculating a QF’s ability to contribute to a utility’s need for capacity, we find it reasonable for the utilities to only begin payments for capacity at such time that the utility becomes capacity deficient. If a utility is capacity surplus, then capacity is not being avoided by the purchase of QF power. By including a capacity payment only when the utility becomes capacity deficient, the utilities are paying rates that are a more accurate reflection of a true avoided cost for the QF power.

Id. at 21.

The Commission directed that “when a utility submits its [IRP] to the Commission, a case shall be initiated to determine the capacity deficiency to be utilized in the SAR Methodology.” *Id.* at 23. The Commission also stated “utilities must update fuel price forecasts and load forecasts annually – between IRP filings. . . . We find it reasonable that all other variables and assumptions utilized within the IRP Methodology remain fixed between IRP filings (every two years).” *Id.* at 22.

STAFF ANALYSIS

Rocky Mountain Power filed its 2015 IRP with the Commission on March 31, 2015. (Case No. PAC-E-15-04). The Company's 2015 IRP includes the results of its capacity balance calculated for summer peak loads only. Rocky Mountain Power's capacity balance from its 2015 IRP is reproduced below for reference.

Line	Rocky Mountain Power Table 1											
	2015 IRP - System Capacity Loads and Resources without Resource Additions											
	Calendar Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
5	System (MW)											
6	Total Resources	10,568	10,043	10,143	10,217	10,144	10,124	10,486	10,446	10,458	10,425	10,310
7	Obligation	10,104	9,930	10,089	10,225	10,333	10,452	10,569	10,674	10,788	10,832	10,897
8	Reserves	1,333	1,310	1,331	1,349	1,363	1,378	1,393	1,407	1,422	1,428	1,436
9	Obligation + Reserves	11,437	11,240	11,420	11,573	11,696	11,830	11,963	12,081	12,210	12,259	12,333
10	System Position 2015	(869)	(1,197)	(1,277)	(1,357)	(1,552)	(1,706)	(1,477)	(1,635)	(1,752)	(1,834)	(2,023)
12	Available Front Office Transactions	1,670	1,670	1,670	1,670	1,670	1,670	1,670	1,670	1,670	1,670	1,670
13	Resource Sufficiency / (Deficiency)	801	472	393	313	117	(36)	192	34	(82)	(165)	(354)

The 2015 IRP shows that the Company first becomes capacity deficient by 36 MW in 2020 (line 13 in Rocky Mountain Power Table 1 above). The Company notes that available system capacity is increased in the summer of 2021 with the expiration of a legacy exchange contract, and the system falls short again in 2023.

Pursuant to Order No. 32697, Rocky Mountain has updated its capacity balance based on the following:

- 1) changes to the Company's load forecast;
- 2) addition of 564 MW of nameplate capacity from 23 additional QF contracts signed with QFs since preparation of the 2015 IRP; and
- 3) termination of two QF contracts that were included in the 2015 IRP, thus eliminating 82 MW of nameplate capacity and roughly 12 MW of system capacity contribution.

After accounting for these factors, Rocky Mountain states that it now first becomes capacity deficient by 167 MW in the summer of 2025 (line 16 in Rocky Mountain Power Table 2 as Modified by Staff, shown below). The Company therefore requests that 2025 be approved as the first capacity deficiency year for calculating published avoided cost rates.

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Rocky Mountain Power Table 2 as Modified by Staff
Updated System Capacity Loads and Resources

Calendar Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
System (MW)											
Updated Load Forecast Impact	(25)	(51)	(56)	(16)	26	15	20	14	10	4	7
Updated Obligation + Reserves	11,412	11,189	11,364	11,557	11,722	11,845	11,983	12,094	12,220	12,263	12,340
Signed PPAs not included in IRP	0	0	213	216	214	213	212	210	209	208	206
Terminated PPAs included in IRP	(1)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)
Updated Resources	10,567	10,031	10,343	10,420	10,346	10,325	10,685	10,644	10,655	10,620	10,504
Updated System Position 2015	(844)	(1,159)	(1,021)	(1,137)	(1,376)	(1,520)	(1,298)	(1,451)	(1,565)	(1,643)	(1,837)
Available Front Office Transactions	1,670	1,670	1,670	1,670	1,670	1,670	1,670	1,670	1,670	1,670	1,670
(Deficiency)	825	511	649	532	294	150	372	219	104	27	(167)

In determining its first capacity deficiency, Rocky Mountain proposes to include 1670 MW of available Front Office Transactions (line 15 in the table above). As described in the Company's 2015 IRP, Front Office Transactions (FOTs) are proxy resources, assumed to be firm, that represent procurement activity made on an ongoing forward basis to help the Company cover short positions. FOTs can be made years, quarters or months in advance, however, most transactions made to balance the Company's system are made on a balance of month, day ahead, hour ahead, or intra-hour basis. Rocky Mountain states that it develops its FOT limits based upon its active participation in wholesale markets, its view of physical delivery constraints, market liquidity and market depth, and with consideration of regional resource supply. (PacifiCorp 2015 IRP at 128-129).

Staff believes it is more reasonable to use the Updated System Position to represent the Company's capacity balance in the SAR model (line 13 in the table above), which does not include the available FOTs. Staff believes that FOTs generally do not represent committed market purchases, except perhaps in the very near term. Uncommitted resources, regardless of whether they are FOTs (i.e., market purchases), Company-owned generation plants, or long-term power purchase agreements, should not be counted in determining a utility's capacity deficit position for purposes of SAR avoided cost calculations. Absent a showing otherwise, Staff assumes that none of the Front Office Transactions shown above represent committed market purchases.

Moreover, Staff believes it could be inconsistent with PURPA to allow uncommitted market purchases to affect avoided cost rates. Under PURPA, utilities have an obligation to purchase any energy and capacity made available from Qualifying Facilities (QFs). 18 C.F.R. §292.303(a). This “must purchase” obligation, Staff believes, does not permit utilities to reject offers to sell by QFs in lieu of utility purchases from the market. Stated differently, utilities should not be allowed to rely on uncommitted, non-specific market purchases as an excuse for not needing capacity from QFs. In addition, PURPA requires utilities to uphold the indifference standard as reflected in the definition of avoided costs. Avoided cost is defined as the “‘incremental cost’ to the purchasing utility of power which, but for the purchase of power from the QF, such utility would either generate itself or purchase from another source.” 18 C.F.R. § 292.101(b)(6). Relying on uncommitted market purchases (FOTs) to satisfy capacity deficiencies, when the QF could provide capacity as an alternative, would disadvantage the QF by producing lower avoided cost rates.

Finally, including FOTs in determining the utility’s first capacity deficit would be inconsistent with the Company’s practices in the past. The current SAR model, which includes inputs based on the Company’s 2013 IRP, adopts the system position, exclusive of FOTs, to represent the capacity balance.

In verbal conversations with the Company, Rocky Mountain indicated that it included FOTs in this filing to establish its first deficit year, in part, because it believed the inclusion would be consistent with Idaho Power’s practices in the past. While inclusion of FOTs (uncommitted market purchases) may, in fact, be consistent with Idaho Power’s past practices, Staff stands by its position in this case that they should not be included in the first deficit determination. Staff believes it may be necessary to more closely examine Idaho Power’s first capacity determination in its next filing.

If Staff’s proposal to exclude Front Office Transactions is accepted, then Rocky Mountain Power is still currently deficit in 2015, just as it has been since its system position was determined in 2013 (see table below). Consequently, the Company’s avoided cost rates under the SAR methodology do not change.

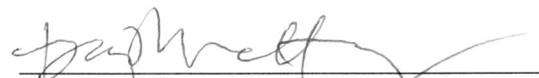
Capacity Balance in 2013 and 2015

Calendar Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
System Position 2013	(1,228)	(1,469)	(1,688)	(1,888)	(2,100)	(2,274)	(2,081)	(2,308)	(2,308)	(2,308)	(2,308)
Updated System Position 2015	(844)	(1,159)	(1,021)	(1,137)	(1,376)	(1,520)	(1,298)	(1,451)	(1,565)	(1,643)	(1,837)

RECOMMENDATIONS

Staff recommends that the Commission reject Rocky Mountain Power's request to adopt 2025 as the Company's first capacity deficit for use in the SAR model. Instead, Staff recommends the Commission adopt summer 2015 as the first capacity deficit, reflecting the Company's Updated System Position exclusive of available Front Office Transactions.

Respectfully submitted this 10th day of November 2015.


Daphne Huang
Deputy Attorney General

Technical Staff: Rick Sterling
Yao Yin

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 10th DAY OF NOVEMBER 2015, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. PAC-E-15-12, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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